



# WASHOE COUNTY

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DA ✓

Risk Mgt. N/A

Clerk's Office CS

Comptroller NS

## STAFF REPORT

BOARD MEETING DATE: January 12, 2016

**DATE:** December 16, 2015  
**TO:** Board of County Commissioners  
**FROM:** Ben Hutchins, CPA, Director, Finance and Administration Division  
Community Services Department, 954-4646, [bhutchins@washoecounty.us](mailto:bhutchins@washoecounty.us)  
**THROUGH:** Dave Solaro, Arch., P.E., Director  
Community Services Department, 328-3600, [dsolaro@washoecounty.us](mailto:dsolaro@washoecounty.us)  
**SUBJECT:** Approve a Resolution to Adopt Financial Policies for the Washoe County  
Community Services Department Utilities. (All Commission Districts.)

### SUMMARY

On March 26, 2002, the Board of County Commissioners (Board) approved a resolution to adopt financial policies for the Washoe County Department of Water Resources (DWR). Since that time DWR was merged into the Community Service Department and, as of January 1, 2015, the water utility segment of the utilities owned and operated by the County consolidated with the Truckee Meadows Water Authority (TMWA). Due to these changes the March 26, 2002 resolution needs to be updated.

Recent financial trends of each utility meet or exceed the proposed financial policies. As such, an increase in user rates or connection fees is not needed as a result of adopting the revised resolution.

Washoe County Strategic Objective supported by this item: Stewardship of our Community.

### PREVIOUS ACTION

On March 26, 2002, the Board approved a resolution to adopt financial policies for the Washoe County Department of Water Resources.

### BACKGROUND

On March 26, 2002, the Board approved a resolution to adopt financial policies for the Washoe County Department of Water Resources (DWR). Since that time DWR was merged into the Community Service Department and, as of January 1, 2015, the water utility segment of the utilities owned and operated by the County consolidated with TMWA. Due to these changes the March 26, 2002 resolution needs to be updated for the remaining County utility services (reclaimed water, wastewater, Golden Valley recharge water and Spanish Springs flood control).

AGENDA ITEM # 2.8.8.

Highlights of the proposed financial policies include the following:

General - Follow all then-existing County financial policies and procedures.

Budget - Budget and pay recurring expenses with recurring revenues and non-recurring expenses with non-recurring revenues.

User Rates – Develop rates that will:

- fund 50% of depreciation expense (except the Spanish Springs flood control utility which will be evaluated on an as needed basis),
- fund debt service related to operating infrastructure,
- maintain a debt coverage ratio of 1.10 or greater,
- reserve a minimum cash balance of \$100,000 for the Golden Valley recharge utility (these cash reserve requirements are already outlined in ordinance),
- (excluding the Golden Valley recharge utility) retain the following minimum cash reserves:
  - Working capital: 60 days of audited operating expenses,
  - Rate stabilization: 15% of audited operating revenues, and
  - Bond reserve: the next scheduled six-month debt service payment, including growth-related debt.

Capital planning – Annually prepare and prioritize a five-year capital improvement plan.

Capital Improvement Funding:

- user rates fund operating rehabilitation/replacement capital projects; connection fees fund growth-related capital projects,
- developers construct and dedicate infrastructure required for their developments, and
- developers are provided credits for pre-approved oversizing and off-site infrastructure excess to their needs based on actual costs; only dollar credits will be granted and applied to then-existing fees at the time of usage.

The user rate financial policies and related cash reserves being proposed differ from those outlined in the March 26, 2002 resolution, but are comparable to those recommended by the County's water utility public working group approved by the Board May 19, 2009 and those recommended and included in the accompanying May 19, 2009 staff report (adopted by the Board).

The proposed financial policies lessen the cash reserve for debt service previously required by bond covenants no longer in effect (due to the TMWA consolidation). Prior bond covenants required a cash reserve of two debt service payments (one year) versus the proposed cash reserve of one debt service payment (six months). The prior bond covenants also required a cash reserve of 1/6 of annual operating expenses for rate stabilization. This reserve is not being proposed for the remaining utilities.

Recent financial trends of each utility meet or exceed the proposed financial policies. As such, an increase in user rates or connection fees is not needed as a result of adopting the revised resolution.

**FISCAL IMPACT**

Adoption of the proposed financial policies will protect ratepayers from large user rate increases in the future and provide fiscal responsibility for all County utilities.

Recent financial trends of each utility meet or exceed the proposed financial policies. As such, an increase in user rates or connection fees is not needed as a result of adopting the revised resolution.

**RECOMMENDATION**

It is recommended that the Board of County Commissioners approve a Resolution to Adopt Financial Policies for the Washoe County Community Services Department Utilities.

**POSSIBLE MOTION**

Should the Board agree with staff's recommendation, a possible motion would be: "Move to approve a Resolution to Adopt Financial Policies for the Washoe County Community Services Department Utilities."

## RESOLUTION

### A RESOLUTION TO ADOPT FINANCIAL POLICIES FOR THE WASHOE COUNTY COMMUNITY SERVICES DEPARTMENT UTILITIES

WHEREAS, Washoe County is responsible to the County's citizens to carefully account for all public funds, and

WHEREAS, Washoe County currently charges customer rates to provide reclaimed water, recharge water (in Golden Valley), wastewater, and Spanish Springs flood control ("Utilities") services desired by the public through its Community Services Department ("Department"), and

WHEREAS, Long-range financial planning is necessary to implement the Department's long-term goals, and

WHEREAS, Expenses should be planned to provide pre-determined levels of service to the community, and

WHEREAS, The Department must maintain sufficient reserves to ensure the Utilities are in a position to respond to changes in the economy or new service challenges without an undue amount of financial stress, and

WHEREAS, The financial policies recognize that the County's Utilities can only be economically strong if financial planning and proper accounting is an explicit part of the decision-making process for all utility services.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS (Board) OF THE COUNTY OF WASHOE IN THE STATE OF NEVADA:

**Section I.** That the following are the financial policies for the Washoe County Community Services Department Utilities:

1. **GENERAL:** The Department shall abide by all Washoe County Financial Policies and Procedures approved by the Board.

In accordance with Washoe County policy, any bond issue, bank financing or similar borrowing proposed by the Department will be coordinated and approved by the Washoe County Comptroller and County Manager's Office. The Treasurer's Office and Comptroller will be kept informed with the Treasurer's Office performing all investing of funds and the Comptroller's Office and Community Services Department having shared responsibility for accounting and disclosure associated with the bond issues and other financing mechanisms.

The submission of any agenda item to the Board must follow then-existing County policies and procedures.

The Department shall follow then-existing County purchasing policies and procedures.

2. **ANNUAL BUDGET:** The annual budget serves several purposes since it is the financial plan for the year as well as a policy document. Specific budget policies include the following:

The Department shall pay for recurring expenses with recurring revenues and use non-recurring revenues for non-recurring expenses.

The Department shall avoid budgetary and accounting procedures that balance the current budget at the expense of future budgets (e.g., use of non-recurring revenues to fund recurring expenses) except for those planned and authorized by the Department Director or designee.

3. **RATES:** Cash flows from each utility shall provide sufficient resources to (1) meet cash operating expenses of each individual utility, (2) provide for minimum cash reserves and fund balances, and (3) fund the respective individual utility repairs, replacements and system upgrades necessary to meet operating, regulatory or health and safety requirements. Revenues from individual utility rates must also provide security for debt service payment requirements for each respective utility, whether or not the debt is actually paid from connection fees.

Interest earnings shall be added to the utility which earned the interest.

User rates shall be developed to provide minimum annual revenues sufficient for each utility to:

- Fund 50% of depreciation expense to provide capital for future infrastructure rehabilitation projects (excludes the Spanish Springs flood control utility). Funding to accommodate infrastructure rehabilitation for the Spanish Springs flood control utility shall be evaluated on an as needed basis.
- Pay debt service related to infrastructure rehabilitation and other operating-related projects.
- Maintain a debt coverage ratio of 1.10 or greater for each utility.

Excluding the Golden Valley recharge utility, user rates shall be developed to retain the following minimum cash reserves on a per-utility basis:

- Working capital reserve: sixty days of the most recent audited operating expenses.
- Rate stabilization reserve: 15% of the most recent audited operating revenues.
- Bond reserve: the next scheduled six-month debt service payment related to each utility, including debt service normally funded by connection fees.

User fees and connection fees can be used interchangeably to pay debt service for the Spanish Springs flood control facility. For this reason, cash held in the connection fee segment of the Spanish Springs flood control utility can be counted toward cash reserve requirements.

As currently outlined in ordinance, minimum cash reserves for the Golden Valley recharge utility shall be no less than \$100,000.

Charges for service that benefit specific user classes shall recover full costs, including all direct and identified indirect costs.

Due to the high cost of maintaining and replacing utility infrastructure, costly non-capitalized rehabilitation or replacement projects may at times cause operating losses that utilize cash reserves. As long as cash reserves are sufficient to accommodate policy requirements, and the debt coverage ratio is in compliance with bond covenants, rates may still be deemed satisfactory and in compliance with these financial policies.

4. **CAPITAL PLANNING:** The Department shall prepare and update annually a five-year capital plan to outline utility expansion and replacement/rehabilitation projects. The plan shall prioritize the needs for both capital replacement/rehabilitation and expansion projects, estimate project costs and identify funding sources. The first year of the five-year capital improvement plan will be used as the basis for formal fiscal year appropriations during the annual budget process.
5. **CAPITAL IMPROVEMENT FUNDING:** User rate and connection fee revenues, and the related investment income, are the primary funding sources for replacement/rehabilitation and utility expansion capital projects, respectively. Grants and bonds are also funding sources for capital projects when warranted.

Due to the uncertainties surrounding development cycles, if connection fees are insufficient to maintain growth-related debt service requirements of each utility, connection fee adjustments and/or a debt service component to the user rate structure may be proposed. The term of debt generally shall not exceed the useful life of the asset and in no case shall the term exceed thirty years. User rates and connection fees shall be evaluated periodically, on an as needed basis, to insure each utility will have sufficient funding to accommodate appropriate capital improvements.

Under appropriate situations, alternative financing methods shall be analyzed for capital projects and equipment including but not limited to leases, lease purchases, developer build and lease-backs, developer build and dedicate for credit as well as bank and bond financing, grant funding and joint ventures. The Washoe County Comptroller or designee and/or the County Manager's Office must approve the financing method and repayment sources depending on the County's then-existing review/approval process.

Developers are responsible for the construction of on-site infrastructure improvements and off-site improvements that are needed as a result of the new development. Developer-dedicated assets should be for infrastructure built by developers specific to a particular residential subdivision or business as required by Washoe County Ordinances (on-site development) and those off-site improvements required to provide service to the development. Alternatives exist whereby connection fee credits are available for developer improvements that are excess to the developer's project (off-site improvements) when requested and pre-approved by the County. Connection fee credits are calculated based on the increased actual out-of-pocket costs to the developer. The dollar value of such credits will be tracked by the Department and applied when used at the then-existing connection

fees at the time of usage. Credit agreements shall reflect dollar credits only. Capacity credits, such as Equivalent Residential Units, shall not be granted. Connection fee credits may not be co-mingled or transferred between the various utilities.

Oversizing and offsite developer build and dedicate agreements must be in writing and approved by the Department Director, District Attorney's Office and Board prior to construction.

**Section II.** Previously adopted financial policies and procedures in conflict with this resolution are hereby repealed. This does not affect existing contracts or agreements. If any provisions of this resolution are deemed unconstitutional or unenforceable, that will not affect the balance of the provisions of this resolution.

**Section III.** This resolution shall be effective on passage and approval.

**Section IV.** The County Clerk is hereby directed to distribute copies of the resolution to the Department of Taxation, the Comptroller, the County Manager's Office and the Community Services Department within 30 days.

ADOPTED this \_\_\_\_\_ day of January, 2016

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Chair,  
Washoe County Commission

ATTEST:

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Washoe County Clerk